



INTERNAL AUDIT PLAN

2022/23 to 2025/26

(Noted by Audit and Risk Committee 26 April 2022)

Summary

Shire of Mundaring has allocated the sum of \$60,000 per annum to undertake internal audits.

This plan has been prepared to ensure the internal audits address areas of greatest risk to the Shire and to ensure the Shire meets its statutory obligations for various audits that are prescribed under the *Local Government Act 1995* (the Act) and accompanying Regulations.

Internal Audits do not include the annual financial management audit prescribed by section 7.12b of the Act, which is considered a separate process with its own specific statutory requirements.

Background

Internal audits evaluate a company's internal controls, including its corporate governance and accounting processes. They ensure compliance with laws and regulations and help to maintain accurate and timely financial reporting and data collection.

The internal audit provides an independent and objective review and advisory service to:

- provide assurance to Council and the CEO that the Shire's financial and operational controls are designed to manage the organisation's risks and achieve its objectives, are operating in an efficient, effective and ethical manner; and
- assist management in improving and monitoring the Shire's risk management, internal control and legislative compliance functions.

Internal audits are performed by independent external contractors (unless otherwise stated) appointed through a transparent Request for Quotations process.

Internal auditors report functionally to Council through the Audit and Risk Committee and are accountable to the CEO for the efficient and effective operation of the internal audit function.

Statutory Requirements

The *Local Government Act 1995* and its regulations require the conduct of several audits/reviews as follows;

Local Government Act 1995

s. 7.12 AB Conducting a financial audit

The auditor must audit the accounts and annual financial report of a local government at least once in respect of each financial year.

s. 7.12AJ Conducting a performance audit

The Auditor General Act section 18 applies in relation to a local government as if —
(a) the local government were an agency; and (*etc.*)

s. 7.12AL Audits of accounts of related entities and certain subsidiary bodies

The Auditor General Act sections 16 and 17 apply in relation to a local government as if —

- the local government were an agency; and
- the council of the local government were its accountable authority.

Local Government (Financial Management) Regulations 1996

r. 5 CEO's duties as to financial management

- (2) The CEO is to —
- (c) undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 3 financial years) and report to the local government the results of those reviews.

Local Government (Audit) Regulations 1996

r. 14 Compliance audits by local governments

- (1) A local government is to carry out a compliance audit for the period 1 January to 31 December in each year.
- (2) After carrying out a compliance audit the local government is to prepare a compliance audit return in a form approved by the Minister.
- (3A) The local government's audit committee is to review the compliance audit return and is to report to the council the results of that review.
- (3) After the audit committee has reported to the council under subregulation (3A), the compliance audit return is to be —
 - (a) presented to the council at a meeting of the council; and
 - (b) adopted by the council; and
 - (c) recorded in the minutes of the meeting at which it is adopted.

r. 17 CEO to review certain systems and procedures

- (1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —
 - (a) risk management; and
 - (b) internal control; and
 - (c) legislative compliance.
- (2) The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.
- (3) The CEO is to report to the audit committee the results of that review.

Policy Requirements

Policy OR-19 "Internal Audit Charter" relates.

Reporting Requirements

The Audit and Risk Committee will be kept informed of progress towards completing the scheduled audits by a "standing Item" on the Committee Agenda.

Completed audits will be presented to the Committee through an officer's report which will respond to the findings of the audit.

Internal Audit Plan

The following internal audits are proposed to be undertaken in the period 2022/23 to 2025/26.

2022/23

Description	Scope	Budget
Occupational Health and Safety Audit	External audit	\$20,000
Recruitment and Selection	Review of recruitment and selection policies and adherence to by staff. Includes use of contract labour.	\$15,000
Compliance Audit Return	As per Regulation 15 of the Audit Regulations	Internal
TOTAL		\$25,000

2023/24

Description	Scope	Budget
Development and Building Approvals	Review application processes and adherence to statutory timeframes.	\$20,000
Complaints Management System	Review complaints management system and staff adherence to.	\$20,000
Procurement	Review procurement practices.	\$30,000
Cyber Security	Independent testing of cyber security controls every second year	\$10,000
Compliance Audit Return	As per Regulation 15 of the Audit Regulations	Internal
TOTAL		\$80,000

2024/25

Description	Scope	Budget
Financial Management Review	As per 5 (2) of Financial Management Regulations	\$42,500
Internal Controls	As per Regulation 17 of the Audit regulations	
Legislative Compliance	As per Regulation 17 of the Audit regulations	
Risk Management	As per Regulation 17 of the Audit regulations	
Compliance Audit Return (external audit)	As per Regulation 15 of the Audit Regulations	\$5,000
TOTAL		\$47,500

2025/26

Description	Scope	Budget
Asset Management	Review of asset management systems	\$25,000
Service Level Agreements	Review of service Level Agreements with external organisations for cost effectiveness and adherence to agreements.	\$10,000
Information and Communications Technology Systems	Review of internal ICT systems for efficiency and cost	\$40,000
Cyber Security	Independent testing of cyber security controls every second year	\$10,000
Compliance Audit Return	As per Regulation 15 of the Audit Regulations	Internal
TOTAL		\$85,000

The Compliance Audit Return is to be completed by an independent party every third year to allow for external review of the matters prescribed in the return.

A Procurement Audit is to be undertaken every five years to reflect the level of risk associated with these activities.

Other Audits may also be scheduled at regular intervals or from time to time reflective of the level of risk and the dynamic environment in which these risks present themselves to the organisation.

The Office of the Audit General conducts focus area audits at state of local government entities as an extension of annual financial audits and the Shire may be invited to participate.

A detailed scope for each of the audits will be prepared when preparing the Request for Quotation (when required in accordance with the Purchasing Policy) to provide the services.

Appendix

Internal Audit Plan History

Date Undertaken	Purpose	Scope	Outcome
February 2022	Compliance Audit Return (Conway Highbury Pty Ltd)	<p>The scope of work was for Conway Highbury Pty Ltd to:</p> <ul style="list-style-type: none"> • use the questions from the DLGSC to identify the Shire’s compliance and non-compliance by reviewing: <ul style="list-style-type: none"> ○ Governance Registers (e.g. Returns Register and Gifts Register available on the Shire’s website and internally maintained registers). ○ Council and Committee agendas and minutes ○ supporting documentation • establish adequacy of supporting systems and compliance levels • provide a completed Return and associated report 	<p>ARC5.02.22</p> <p>In summary, the Shire achieved a commendable and very high level of compliance.</p> <p>‘Disclosure of interest’ Q13 – under section s5.89A(6) of the Act, when a person ceases to be a person who is required to make a disclosure under section 5.87A or 5.87B, the CEO is to remove from the register all records relating to that person.</p> <ul style="list-style-type: none"> • The register that relates to sections 5.89A and 5.89B contained records of persons who ceased to be relevant after ceasing employment with the Shire and/or retired from council or were not re-elected after elections in October 2021. The register has since been updated. <p>‘Disclosure of interest’ Q 25 – under sections s5.51A(1) & (3) of the Act, the CEO is to prepare, and implement and publish an up-to-date version on the local government’s website, a code of conduct to be observed by employees of the Shire.</p> <ul style="list-style-type: none"> • A code was prepared and implemented as required but was not on the Shire’s website. This has now been rectified. <p>‘Elections’ Q2 - Regulations 30G(3) & (4) of the Local Government (Elections) Regulations 1997 require the CEO to remove any disclosure of gifts forms relating to an unsuccessful candidate, or a successful candidate that completed their term of office, from the electoral gift register, and retain those forms separately for a period of at least two years.</p> <ul style="list-style-type: none"> • Some disclosure forms were still on the register. This has now been rectified.
September 2021	Staff Exit Controls (Office of the Auditor General)	<p>This audit assessed whether agencies “effectively and efficiently manage the exit of staff to minimise security, asset and financial risks”.</p>	<p>ARC 07.02.22</p> <p>The Shire currently has a register and passes are deactivated promptly when a staff member leaves. No audits of the register are undertaken. If a staff member was to leave without returning the pass, it will still be deactivated. No audit of active passes is undertaken.</p> <p>A similar process exists for the return of keys. If keys are not returned by exiting staff, the officers responsible will follow this up with that staff member.</p> <p>The Shire has a checklist to assist managers in exiting staff and includes removal from the shire IT network and return of shire owned assets. There may be some access still available if the staff member has access to specific external software applications but these are not critical or confidential and pose a low risk.</p>

Date Undertaken	Purpose	Scope	Outcome
			<p>The OAG report has identified some improvements that can be made to this checklist.</p> <p>A register is maintained by IT of all related assets issued to staff which includes an audit trail of ownership.</p> <p>A separate register of minor assets is maintained which includes the same assets and is reviewed annually.</p> <p>A comprehensive audit is undertaken by payroll/finance staff of departing employees' termination payments, including any debts owing.</p> <p>This risk is assessed on a case by case basis, as relevant to the position and the circumstances of the departure.</p> <p>In addition to the checklist, there are related procedures to assist managers in exiting staff. Managers are reminded of these procedures from time to time. There is some opportunity for improvement in the exiting of casual staff, which due to the nature of their employment, may retain access to systems for a period of time. This is currently checked every 12 months.</p> <p>All staff are offered exit interviews, with approximately 75% accepting the offer. Any issues or trends that are identified in these interviews are addressed with the relevant manager, director or CEO as required.</p>
August 2021	Financial Management Review and Review of Risk Management, Internal Controls and Legislative Compliance		<p>ARC5.12.21</p> <p>An Inventory should be performed for all portable attractive assets and evidenced by inventory sheets.</p> <ul style="list-style-type: none"> • Accepted. The Manager Finance and Governance will liaise with the Asset Management Officer to develop/implement a process and documents for an inventory stock-take. <p>Serial numbers be sourced and added to the Portable and Attractive Asset Register for individual assets.</p> <ul style="list-style-type: none"> • Whilst it is acknowledged that this would be best practice, the implementation of this recommendation has budget resource (human and monetary) implications. The implementation of bar codes and bar code readers will be considered as part of the Corporate Business Planning process for 2022/23. <p>The CEO Authorise multiple officers with the ability to exercise powers restricted to when acting in a substantive position and/or have a check box added to the Higher Duties form related to authorisation requirements.</p>

Date Undertaken	Purpose	Scope	Outcome
			<ul style="list-style-type: none"> • Accepted. Higher Duties checklist form to be amended to include a check box titled “additional authorisations required”. <p>Each delegated authority maintain a register of how and when they exercised their delegated authority including date, details and outcome. The source or mechanism to register could be included within each Delegated Authority form. The Conflicts of Interest Policy detail how each section is currently managing conflicts of interest under delegated authority and each section ensure they register conflicts when they arise, even if the management strategy is to avoid or transfer.</p>
October 2020	Contract Management - Internal Audit Report		<p>ARC4.08.21</p> <ol style="list-style-type: none"> 1. Misalignment of contract terms with Notice of Award. Risk: Low 2. Lack of documented contractor performance reviews. Risk: High 3. Administration of contract variations: <ul style="list-style-type: none"> • Guidance required as to what constitutes an appropriate variation; • No formal documentation for number and value of variations; • No formal documentation for justification and approval of variations, including cost and scope; • Contracts register does not include some variations. Risk: Medium 4. Delegation CE-151 does not include specific delegation limits for approvals of contract renewals, extensions and variations. Risk: High 5. No procedure in place to advise the contractor or custodian of the contracts register of Council approved variations. Risk: Medium 6. No evidence of requesting contractor insurance certificates on an annual basis. Risk: High 7. No documented payment approval process for contracts and tenders. This should include guidance on monitoring expenditure against budget. Risk: Medium 8. Unable to verify if invoiced charges are checked against agreed contract price before authorising invoices for payment. Risk: Medium 9. Extension of contracts is not formally documented; No mutually accepted agreement for extension between Shire and contractor; No documented evidence of contract review prior to extension of the contract;

Date Undertaken	Purpose	Scope	Outcome
			<p>No documented evidence or analysis of the contract to justify an extension or to determine whether the extension is a change of scope of the original contract. Risk: Medium</p> <p>10. Timeliness of re-tendering process: contracts have been extended in breach of the tender requirements due to delays in the re-tendering process. Risk: High</p>
December 2020	Infringements Audit (Paxon)	<ul style="list-style-type: none"> • Interview relevant staff to gain an understanding of the end to end processes for the issuing and management of infringements (including court imposed fines); • Analyse documents including strategies, plans, policies, guidelines and reports; • Perform data analytics on selected data sets; • Review the number and amount of outstanding fines and infringements; • Identify opportunities for improvement; and <p>Prepare an audit report with findings, recommendations and agreed actions to address any control or process improvement areas identified.</p>	<p>ARC7.12.21</p> <ul style="list-style-type: none"> • The Shire’s “Dogs Local Law 2017” and “Keeping of Cats Local Law” are not aligned with current legislation; • No formalised manual exists to guide Shire employees regarding their obligations for bush fire management; • The “Community Safety Rangers – Operations Manual” is outdated and consequently provides Shire rangers with obsolete guidance; • Shire employees are not provided with adequate guidance regarding operational procedures for infringements of: <ul style="list-style-type: none"> ▪ Dog legislation (including the Shire’s “Dogs Local Law 2017”); ▪ Environmental legislation; ▪ Shire’s “Parking Local Law 2009”; ▪ Health legislation; and ▪ Building legislation. • The Shire’s “Compliance” policy does not provide a holistic perspective regarding the management controls and relevant legislation for infringements; • Registers which record details of the different types of infringements issued are either incomplete or non-existent and consequently obstructs management control; • No register is kept for unpaid infringements registered with the FER and consequently management control is obstructed; • No formal reporting regarding infringements takes place which is indicative of weak management control; • The late issue of the sampled infringement notices may suggest those notices are not enforceable; and <p>The collection of money for issued infringement notices appears slow and cumbersome.</p>
December 2020	Contracts Management Audit (Paxon)	<ul style="list-style-type: none"> • Interview relevant staff to gain an understanding of the end to end processes; • Analyse documents including strategies, plans, 	<p>To ARC August meeting 2021</p> <p>Paxon Recommendation 1 - Ensure the contract period is clearly noted on the Notice of Award. Ensure Notice of Award is retained as per record keeping requirements.</p>

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		<p>policies, guidelines and reports;</p> <ul style="list-style-type: none"> • Perform data analytics on selected data sets; • Identify opportunities for improvement; and <p>Prepare an audit report with findings, recommendations and agreed actions to address any control or process improvement areas identified.</p>	<p>Paxon Recommendation 2 - Documented and scheduled contractor review to be included in contract terms, with a final contractor performance carried out prior to contract expiry and extensions.</p> <p>Paxon Recommendation 3 - Delegations and Procurement policies and procedures should be amended to include specific guidance on contract variations including appropriate number of variations and consideration as to whether the variation changes the original scope of the contract or if the variation requires council approval. Develop a template for recording the number and dollar value of the individual variation and the total of the approved variations. Develop a template to seek approval for variation including justification and seek approval for the variation, including cost and scope. A process be developed to ensure the custodian of the register is notified of all variations.</p> <p>Paxon Recommendation 4 - Amend delegations, policies, and procedures to include a specific delegation, including dollar value, for contract variation and extensions.</p> <p>Paxon Recommendation 5 - Develop a process to ensure all council decisions regarding contracts or tenders, are conveyed to the stakeholders of the contract or tender.</p> <p>Paxon Recommendation 6 - Develop a process to ensure all current contractors provide a Certificate of Currency each year for the duration of the contract.</p> <p>Paxon Recommendation 7 - Develop a Payment Approval process for contracts and tenders which includes guidelines for monitoring expenditure against budget and guidelines as to the process for approval of payments. Recommend each project has a separate general ledger account with relevant budget. Ensure appropriate number of quotations are obtained for additional services required to complete the project or advertise RFT/RFQ for project management services.</p> <p>Paxon Recommendation 8 - Invoices for contracts and tenders should have a copy of the current price schedule attached to the invoice to show that the invoice charges have been checked to the price schedule.</p> <p>Paxon Recommendation 9 - All Contacts and Tenders extensions granted must be supported by formal documentation. All Contracts and Tenders extensions granted must be supported by a formal documented mutual agreement by both parties. Documented and scheduled contractor review to be included in contract terms, with a final contractor performance carried out prior to contract expiry and extensions. Develop a template to seek approval for extension including justification and also provides an analysis of the contract, to determine whether the extension is a change of scope of the original contract. Extensions must be processed in a timely manner before the expiration of the current contract and only if an extension option is included in the original contract.</p>

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			<p>Paxon Recommendation 10 - Delegations and Procurement policies and procedures should be amended to include specific delegation limits for approval of contract extensions.</p> <p>Paxon Recommendation 11 - Develop a process for the custodian of the contracts register to review the register on a regular basis to ensure tendering process is commenced in a timely manner to avoid unnecessary contract extensions.</p>
December 2017	Internal Light Fleet Audit (KPMG)	<ul style="list-style-type: none"> Review the utilisation, purchase and operating costs of Shire of Mundaring light fleet vehicles (including utility vehicles) inclusive of commuting and private use costs. Review and consider Shire of Mundaring's fleet policies, in light of industry best practice approaches and identify similarities and opportunities for improvement. Examine fleet performance against readily available industry comparators and benchmarks; and <p>Develop and provide recommendations for improving the performance of the fleet</p>	<p>ARC5.08.18</p> <p>KPMG Recommendation 1 – Select and trial logbooks or an integrated Fleet Management System to collect evidence based data required to effectively assess, manage and optimise the fleet.</p> <p>KPMG Recommendation 2 - Consider reducing fleet size by not purchasing all planned vehicles in FY18 and FY19. In particular, these could come from reallocation of vehicles with low utilisation in the Recreation & Leisure and Community Safety & Emergency Management departments or Operations and Rangers callout vehicles.</p> <p>KPMG Recommendation 3 - To enable future fleet reductions, ensure vehicles are pooled consistently to optimise utilisation opportunities within and across service teams.</p> <p>KPMG Recommendation 4 - Refresh Policies and Procedures to include procurement guidelines, call out definitions and ensure adherence to requirements.</p> <p>KPMG Recommendation 5 - Consider vehicle leasing including Novated Leasing o</p> <p>KPMG Recommendation 6 - Standardise the vehicle specifications and fleet composition of vehicles predominantly for private use.</p> <p>KPMG Recommendation 6 - Standardise the vehicle specifications and fleet composition.</p> <p>KPMG Recommendation 7 - Review HR Policies and future employment entitlements regarding provision of vehicles for private and commuting use.</p>
March 2016	Internal Procurement Audit (Deloitte)	<ul style="list-style-type: none"> Review organisational structures, business processes and systems in procurement to prevent/minimise opportunities for misconduct. Review systems, controls and practices to identify incidences of noncompliance with 	<p>DARC2.07.16</p> <p>Finding 1 - Limited guidance provided in the tender processes (Risk – Critical)</p> <p>Finding 2 - Insufficient guidance to ensure consistent use of purchase orders across the organisation (Risk – Critical)</p> <p>Finding 3 - Lack of robust conflict of interest process for employees involved in procurement activities (Risk – Important)</p> <p>Finding 4 - Expense policy document has not been developed (Risk – Important)</p> <p>Finding 5 - A robust contract management system is not in place (Risk – Important)</p> <p>Finding 6 - Financial Delegations of Authority have not been clearly communicated or applied consistently (Risk – Important)</p>

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		<p>legislation and procurement procedures.</p> <p>Review reporting and management practices for identified or suspected non-compliance and misconduct.</p>	<p>Finding 7 - System controls with Online Requisitioning System (OLR) are insufficient to support the purchasing system (Risk – Important)</p> <p>Finding 8 - Purchasing card spend is not appropriately controlled (Risk – Important)</p> <p>Finding 9 - Limited review of system changes as audit logs are not reviewed (Risk – Moderate)</p> <p>Finding 10 - Vendor master data file maintenance (Risk – Moderate)</p> <p>Finding 11 - Petty cash policy not in place (Risk – Minor)</p>